May, 2017

The Main Questions and Answers during the Briefing on Earning Results for Fiscal 2017 (fiscal year ended 31st March 2017)

*Please be aware that this document is not a verbatim account of everything that was said during at the question and answer session held during the briefing. The Company has made additions and modifications, and summarised the content as it judged appropriate.

[Questions about the Company in general]

Q: In your long-term management vision, you set a target of ¥120 billion in operating income by the year 2025 (fiscal 2026). This seems a rather conservative objective. Given your current performance (fiscal 2017: ¥104.1 billion) and the contribution from progress on the Umeda 1-1 Project, it looks like you will coast to this target naturally. On what basis did you set the target?

A: Taking into account the impact of depopulation and ageing in the Kansai area, it will be very difficult to maintain the current income level, even with the contribution from the Umeda 1-1 Project. If we just coasted forward, our performance would surely decline. Therefore, we will steadfastly pursue the four strategies outlined in the long-term vision with the aim of raising the level of operating income to ¥120 billion by the year 2025 (fiscal 2026).

Also, since we are going to make large-scale investments with a view to future growth, we expect that depreciation and amortisation will rise significantly. Therefore, while increasing our income by 20 billion from the current level, we also aim to boost our EBITDA by 50 billion, and we hope to significantly improve our ability to generate cash flows.

Q: You said that you will proactively pursue growth. How much will you invest in the run up to 2025 (fiscal 2026)?

A: As mentioned in the new medium-term management plan (fiscal 2016-2019), we project ¥55 billion per year in investment in maintenance and renewal (¥220 billion over four years) and ¥40 billion per year in investment for growth (¥170 billion over four years). As for annual investment over the next ten years (fiscal 2017-2026), as is stated in the long-term vision, the level of investment in maintenance and renewal will remain the same, but investment in growth will be double the current level.

In other words, assuming we record ¥150-200 billion in EBITDA by 2025 (fiscal 2026) as expected, the majority of funds, excluding those to be returned to shareholders, will be allocated for investment. We will focus in particular on expanding our growth investment.

Please be aware that our newly formulated long-term vision focuses primarily on outlining the kind of company we hope to be and the basic approach and strategies for achieving this vision. As such, it does not provide precise quantitative estimates of investment. Before embarking on any investment, we must carefully assess the value, feasibility, and risk of the project. Therefore, whether or not we can actually achieve the projected investment scale will depend to a large extent on the efforts of our Group going forward.

Q: Despite planning large investments in growth, you have targeted ¥120 billion in operating income by the year 2025 (fiscal 2026). Do you envisage a low level of capital efficiency?

A: Obviously, it is very hard to anticipate the kind of environment our businesses will face in ten years' time. Take for example growth investment in the Tokyo metropolitan area. We have finally started work on projects such as Ginza 3-chome. However, if the market continues to overheat up to 2020 as expected, we may struggle to acquire properties that meet our conditions for investment. Given this situation, we have not provided precise estimates for operating income and EBITDA either. Rather, we have for the time being outlined our general vision for 2025 (fiscal 2026).

That said, while we currently target ¥120 billion in operating income (compared to ¥200 billion in EBITDA), we hope to raise this level as we become aware of the capital efficiency of each project.

Q: In your long-term vision, you adopted two management indicators: operating income / EBITDA (profitability benchmark) and interest-bearing debt/EBITDA ratio (financial soundness benchmark). What about capital efficiency though? Won't you adopt ROE or a similar benchmark?

A: In our long-term vision, the top priority is to improve profitability while maintaining financial soundness. We do however recognise that ROE is an important management indicator. Accordingly, we will continue working to maintain and improve the level of capital efficiency by carefully assessing the profitability of each prospective investment and improving the profitability of existing businesses. While ROE does not feature in our long-term vision, we will continue using ROE as a benchmark in our medium-term management plans.

Q: You mentioned a policy of organisational improvements for achieving your long-term vision. Specifically, you said you will establish a core real estate company around April 2018. Are you considering reorganising any other business segments such as the Urban Transportation Business or Entertainment and Communications Business?

A: We have considered various options such as dedicating Hankyu Corporation and Hanshin Electric Railway exclusively to the railway business and allocating the sports and stage businesses to another company. However, at this point in time, we do not believe that this would be the most efficient structure. Once we consolidate and reorganise the Real Estate Business segment next spring, we will have the optimum group management structure, at least for the time being.

[Questions about individual business segments]

<Urban Transport Business>

Q: What do you think about the new railway line projects, including the Naniwa-suji Line which has featured in newspaper reports and other media?

A: I will refrain from commenting on the Naniwa-suji Line because the parties concerned are still discussing the matter.

What I will say is that expanding the rail networks in this way will raise the potential of the Kansai area as a whole, and this will lead to a positive outcome for us since the Umeda and line-side areas represent an important revenue base for the Group. On this basis, we are determined to play our part in making these projects a reality.

*Please see 'Developing the Naniwa-suji Line' (*Naniwa-suji sen no seibi ni mukete*) [released on 23rd May 2017; Japanese only]

<Real Estate Business>

Q: Real estate prices are currently high. Why then do you want to proactively direct investment to the Tokyo metropolitan area? Also, what is your policy for acquiring properties?

A: It may seem like we are suddenly switching the focus of investment to the Tokyo metropolitan area, but we believe that the Umeda and line-side areas will remain the most important revenue base for the Group. I would like to reiterate the point that we will continue to proactively pursue initiatives aimed at improving the value of Umeda and line-side areas.

That said, looking ahead to the medium-to-long term, we will not be able to avoid the impacts of depopulation and aging in the Kansai area. To prepare for these impacts, we must start developing business in Tokyo's large market, as well as in overseas markets that are set to grow, so as to construct a balanced business portfolio and reconcile continuous growth with risk dispersal. Moreover, we have concluded that taking these steps will improve our corporate value over the medium-to-long term.

We mentioned that we would aim for the real estate leasing business to acquire assets of approximately ¥200 billion. Please note that this is not a hard-and-fast goal; we are simply using it as a benchmark. Furthermore, it is a benchmark for investment as a whole, not only in the Tokyo metropolitan area. When it comes to growth investment in particular, we will continue to monitor market fluctuations, and carefully consider the value, profitability, and risk of each project.

<Entertainment and Communication Business>

Q: Your Group is famous for its Entertainment and Communication Business. What measures will you take to develop this segment further?

A: As regards the stage business, it is important to maintain the strong performance of Takarazuka Revue, which has continued to flourish since reaching its centenary. It is also important to keep up our efforts to maximise brand value by enhancing contents, such as by broadcasting events live to cinemas in Japan and overseas.

Some people think we should expand the theatre facilities in Tokyo. This might be worth considering under certain circumstances. For example, supposing that a developer wants to build a theatre as part of a large-scale project and that developer wants to bring in Takarazuka Revue, we would consider it. However, constructing a theatre independently entails huge budgetary hurdles, so we have no plans to do this for the time being.

The situation is similar in the sports business. It is only recently that the sports business established the highly profitable business model. To maintain the strong audience-drawing power and profitability, we must continue making steady efforts to prepare a winning team and enhance the appeal of the stadium facilities while also capturing new fans.

As for the communication and media business, this is a business we wish to develop going forward. Since we anticipate market growth particularly in the information service business, we will aim to boost income in existing focal fields such as building maintenance, transport, and the Internet, and use technological innovation as an opportunity to expand business.